Big 5 Hlabisa Local Municipality
(Registration number KZN276)
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	KZN 276 BIG 5 Hlabisa Municipality
Nature of business and principal activities	Service Delivery
Mayoral committee	
Mayor	V.F. Hlabisa
Deputy Mayor	H.T. Nkosi
Speaker	CT Khumalo
Councillors	Cllr.BN Ngwane Cllr. SS Zondo Cllr. PS Mantengu Cllr.SZ Mthembu Cllr.FZ Nkwanyana Cllr. BL Mafuleka Cllr. PV Gumede Cllr. NH Nxumalo Cllr. MO Ntombela Cllr. BW Manqele Cllr. MR Mthembu Cllr. TM Khumalo Cllr. GR Mchunu Cllr. SF Mdaka Cllr. AS Thela Cllr. NF Ngema Cllr. ONN Ndwandwe Cllr. TN Ngema Cllr. TS Mahlaba Cllr. DM Mngomezulu Cllr. HS Ndlovu Cllr. NN Xulu
Grading of local authority	Medium Capacity Municipality Grade 2
Chief Finance Officer (CFO)	Mr JM Nkosi
Accounting Officer	Dr VJ Mthembu
Registered office	Municipal Building, Hlabisa Lot 808 Masson Street Hlabisa 3937
Postal address	P.O. Box 387 Hlabisa 3937
Auditors	Auditor General South Africa Registered Auditors
Attorneys	Truter James de Ridder

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
INEP	Intergrated National Electrification Program
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
EPMP	Extended Public Works Program
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
SARS	South Africa Revenue Authority
PAYE	Pay As You Earn

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The gazette No. 41335 of 15 December 2017 relating to upper limits of the salaries, allowances an benefits of the municipal council was used to pay the salaries and allowance for councilors in 2017/2018 financial years.

According to mSCOA circular No.1 of the Municipal Management Act No. 56 of 2003, all municipalities are compulsory required to implement mScoa with effect from 1 July 2017. Big 5 Hlabisa Local Municipality has implemented mScoa for the first time to comply with the requirement of this circular, as a result, prior year amounts have been restated accordingly for comparability purposes.

The annual financial statements set out on pages 4 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Dr VJ Mthembu
Accounting Officer

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	6	1,918,145	-
Receivables from exchange transactions	7	5,478,236	4,485,472
Receivables from non-exchange transaction	8	17,557,095	14,097,649
VAT receivable	9	-	7,226,955
Cash and cash equivalents	10	3,502,415	1,902,772
		28,455,891	**27,712,848**
Non-Current Assets			
Investment property	2	1,510,304	1,510,304
Property, plant and equipment	3	281,802,726	266,408,656
Intangible assets	4	282,742	338,479
Receivables from non-exchange transaction	8	265,823	530,705
		283,861,595	**268,788,144**
Total Assets		**312,317,486**	**296,500,992**
Liabilities			
Current Liabilities			
Finance lease obligation	11	103,225	108,074
Operating lease liability	5	-	17,006
Payables from exchange transactions	14	40,296,584	42,668,113
Other payable from non exchange transactions	41	2,953,504	1,850,341
VAT payable		576,295	-
Consumer deposits		14,346	18,755
Unspent conditional grants and receipts	12	1,694,886	2,374,472
Bank overdraft	10	454,135	-
		46,092,975	**47,036,761**
Non-Current Liabilities			
Finance lease obligation	11	98,571	202,001
Provisions	13	10,402,861	9,455,332
		10,501,432	**9,657,333**
Total Liabilities		**56,594,407**	**56,694,094**
Net Assets		**255,723,079**	**239,806,898**
Accumulated surplus		255,723,080	239,806,898

* See Note 43 & 42

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		869,266	127,599
Service charges	16	2,019,611	1,470,057
Rendering of services		106,570	23,137
Rental of facilities and equipment		342,355	192,914
Interest income (trading)		11,963	-
Licences and permits		1,878,643	1,554,261
Other income - Sale of building Plans		54,642	14,986
Interest income - investment	18	1,155,682	732,806
Total revenue from exchange transactions		**6,438,732**	**4,115,760**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	21,495,990	8,288,634
Transfer revenue			
Government grants & subsidies	21	123,433,219	108,449,265
Fines, Penalties and Forfeits		811,520	533,650
Donations received		51,771	475,866
Total revenue from non-exchange transactions		**145,792,500**	**117,747,415**
Total revenue	15	**152,231,232**	**121,863,175**
Expenditure			
Employee related costs	22	(67,887,893)	(55,191,887)
Remuneration of councillors	23	(7,991,073)	(5,766,120)
Depreciation and amortisation	24	(9,314,068)	(10,254,915)
Finance costs	25	(780,546)	(365,698)
Lease rentals on operating lease	17	(2,873,091)	(827,827)
Provision for Debt Impairment	26	(4,650,446)	(9,499,409)
Contracted services	27	(17,921,016)	(11,629,909)
Transfers and Subsidies	20	(2,631,241)	(8,043,758)
Inventories losses/write-downs		(11,005)	-
General Expenses	28	(23,920,172)	(22,106,166)
Total expenditure		**(137,980,551)**	**(123,685,689)**
Surplus (deficit) for the year before profit or (loss) on disposal of assets		**14,250,681**	**(1,822,514)**
Profit / (Loss) on disposal of assets		1,657,491	(345,995)
Surplus (deficit) for the year		**15,908,172**	**(2,168,509)**

The accounting policies on pages 10 to 28 and the notes on pages 29 to 56 form an integral part of the annual financial statements.

* See Note 43 & 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	241,583,492	241,583,492
Adjustments		
Prior year adjustments	391,915	391,915
Balance at 09 August 2016	**241,975,407**	**241,975,407**
Changes in net assets		
Surplus for the year	(2,168,509)	(2,168,509)
Total changes	(2,168,509)	(2,168,509)
Opening balance as previously reported	239,565,615	239,565,615
Adjustments		
Prior year adjustments-Note 43	249,293	249,293
Restated* Balance at 01 July 2017 as restated*	**239,814,908**	**239,814,908**
Changes in net assets		
Surplus for the year	15,908,172	15,908,172
Total changes	15,908,172	15,908,172
Balance at 30 June 2018	**255,723,080**	**255,723,080**

Note(s)

* See Note 43 & 42

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property rates		13,522,331	-
Sale of goods and services		2,306,299	8,691,589
Grants		136,323,000	108,449,264
Interest income		1,155,682	732,806
VAT received		5,087,314	5,222,122
Other cash item		455,505	-
		158,850,131	123,095,781
Payments			
Employee costs		(74,692,682)	(59,995,951)
Suppliers		(56,439,754)	(43,286,988)
Other cash item		-	(171,789)
		(131,132,436)	(103,454,728)
Net cash flows from operating activities	30	**27,717,695**	**19,641,053**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(26,459,855)	(24,930,930)
Purchase of other intangible assets	4	(4,053)	(88,129)
Net cash flows from investing activities		**(26,463,908)**	**(25,019,059)**
Cash flows from financing activities			
Finance lease payments		(108,279)	(540,705)
Net increase/(decrease) in cash and cash equivalents		**1,145,508**	**(5,918,711)**
Cash and cash equivalents at the beginning of the year		1,902,772	7,821,483
Cash and cash equivalents at the end of the year	10	**3,048,280**	**1,902,772**

* See Note 43 & 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	869,266	**869,266**	Refer to note 40
Service charges	1,962,000	214,000	**2,176,000**	2,019,611	**(156,389)**	Refer to note 40
Rendering of services	-	-	**-**	106,570	**106,570**	Refer to note 40
Rental of facilities and equipment	205,000	-	**205,000**	342,355	**137,355**	Refer to note 40
Interest income (trading)	783,000	-	**783,000**	11,963	**(771,037)**	Refer to note 40
Licences and permits	2,309,000	(816,000)	**1,493,000**	1,878,643	**385,643**	Refer to note 40
Donations received	374,000	(123,000)	**251,000**	-	**(251,000)**	Refer to note 40
Other income -Building plan	-	-	**-**	54,642	**54,642**	
Interest received - investment	500,000	150,000	**650,000**	1,155,682	**505,682**	Refer to note 40
Total revenue from exchange transactions	**6,133,000**	**(575,000)**	**5,558,000**	**6,438,732**	**880,732**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	14,428,000	2,466,000	**16,894,000**	21,495,990	**4,601,990**	Refer to note 40
Transfer revenue						
Government grants & subsidies	132,787,000	3,714,000	**136,501,000**	123,433,219	**(13,067,781)**	Refer to note 40
Fines, Penalties and Forfeits	1,500,000	(900,000)	**600,000**	811,520	**211,520**	Refer to note 40
Other transfer revenue 1	-	-	**-**	51,771	**51,771**	
Total revenue from non-exchange transactions	**148,715,000**	**5,280,000**	**153,995,000**	**145,792,500**	**(8,202,500)**	
Total revenue	**154,848,000**	**4,705,000**	**159,553,000**	**152,231,232**	**(7,321,768)**	
Expenditure						
Employee related costs	(59,623,000)	(3,844,000)	**(63,467,000)**	(67,887,893)	**(4,420,893)**	Refer to note 40
Remuneration of councillors	(6,926,000)	-	**(6,926,000)**	(7,991,073)	**(1,065,073)**	Refer to note 40
Depreciation and amortisation	(7,500,000)	-	**(7,500,000)**	(9,314,068)	**(1,814,068)**	Refer to note 40
Finance costs	(120,000)	-	**(120,000)**	(780,546)	**(660,546)**	Refer to note 40

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Lease rentals on operating lease	-	-	**-**	(2,873,091)	**(2,873,091)**	Refer to note 40
Debt Impairment	(6,000,000)	-	**(6,000,000)**	(4,650,446)	**1,349,554**	
Contracted Services	(9,252,000)	(2,738,000)	**(11,990,000)**	(17,921,016)	**(5,931,016)**	Refer to note 40
Transfers and Subsidies	(14,745,000)	-	**(14,745,000)**	(2,631,241)	**12,113,759**	Refer to note 40
General Expenses	(23,817,000)	(1,321,000)	**(25,138,000)**	(23,920,172)	**1,217,828**	Refer to note 40
Other materials	(5,000,000)	-	**(5,000,000)**	-	**5,000,000**	Refer to note 40
Total expenditure	**(132,983,000)**	**(7,903,000)**	**(140,886,000)**	**(137,969,546)**	**2,916,454**	
Operating surplus	**21,865,000**	**(3,198,000)**	**18,667,000**	**14,261,686**	**(4,405,314)**	
Inventories losses/write-downs	-	-	**-**	(11,005)	**(11,005)**	
Surplus before taxation	**21,865,000**	**(3,198,000)**	**18,667,000**	**14,250,681**	**(4,416,319)**	
Surplus for the year from continuing operations	**21,865,000**	**(3,198,000)**	**18,667,000**	**14,250,681**	**(4,416,319)**	
Profit/(loss) on disposal of assets	-	-	**-**	1,657,491	**1,657,491**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**21,865,000**	**(3,198,000)**	**18,667,000**	**15,908,172**	**(2,758,828)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value and value in use assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

Impairment loss on debtors is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Accounting Policies

1.5 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Depreciation method**	**Average useful life**
Infrastructure assets		
• Roads and paving	Straight line	30 years
• Roads and Water	Straight line	30 years
Community Assets		
• Recreational Facility	Straight line	20-30 years
• Security	Straight line	5 years
• Community Halls	Straight line	30 years
• Libraries	Straight line	30 years
• Parks and gardens	Straight line	10 years
Finance Lease Assets		
• Office equipment	Straight line	5 years
Other Assets		
• Buildings	Straight line	30 years
• Specialist vehicles	Straight line	10 years
• Other vehicles	Straight line	5 years
• Office equipment	Straight line	3-7 years
• Furniture and fittings	Straight line	7-10 years
• Specialised plant and equipment	Straight line	10-15 years
• Landfill sites	Straight line	30 years
• Computer equipment	Straight line	3-7 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for use or rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the personal use or rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-5 years

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

1.7 Financial instruments (continued)

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and Bank	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
VAT Receivables	Financial asset measured at amortised cost
Bank investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grant	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Bank overdrafts	Financial liability measured at amortised cost
Finance Lease obligations	Financial liability measured at amortised cost

Accounting Policies

1.7 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognises the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

1.8 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

- zero.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus .

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and

1.13 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.15 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier. When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Comparative figures

All municipalities are required to comply with mScoa as from the 1st July 2017. BIG5 Hlabisa have implemented the mScoa and comparative figures have been reclassified to conform to changes in presentation in the current year.

Accounting Policies

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Accounting Policies

1.21 Related parties (continued)

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. Investment property

	2018			2017		
	Cost / Valuation	**Fair value adjustment**	**Carrying value**	**Cost / Valuation**	**Fair value adjustment**	**Carrying value**
Investment property	1,510,304	-	1,510,304	1,510,304	-	1,510,304

Reconciliation of investment property - 2018

	Opening balance	**Total**
Investment property	1,510,304	1,510,304

Reconciliation of investment property - 2017

	Opening balance	**Transfers received**	**Total**
Investment property	293,000	1,217,304	1,510,304

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Investment property are measured at costs less accummulated impairment, no valuation was performed and there has been no movement in cost of investment in current year.

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	54,159,598	-	54,159,598	56,077,866	-	56,077,866
Buildings	75,705,121	(21,284,261)	54,420,860	75,681,185	(18,551,056)	57,130,129
Plant and machinery	3,194,966	(2,032,219)	1,162,747	3,194,966	(1,700,187)	1,494,779
Furniture and fixtures	4,079,672	(1,971,928)	2,107,744	3,998,418	(1,523,394)	2,475,024
Motor vehicles	10,837,073	(7,366,600)	3,470,473	10,837,073	(6,357,307)	4,479,766
Office equipment	844,092	(633,896)	210,196	828,676	(630,618)	198,058
IT equipment	1,700,409	(979,145)	721,264	1,522,438	(804,085)	718,353
Finance leased assets	3,121,351	(2,318,811)	802,540	3,121,351	(2,630,742)	490,609
Infrastructure	87,710,521	(28,632,119)	59,078,402	87,635,304	(26,276,738)	61,358,566
Community	97,274,618	(10,009,459)	87,265,159	76,205,628	(7,178,188)	69,027,440
Work in Progress	18,403,743	-	18,403,743	12,958,066	-	12,958,066
Total	**357,031,164**	**(75,228,438)**	**281,802,726**	**332,060,971**	**(65,652,315)**	**266,408,656**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfer to inventory	Transfers received	Transfers	Change in estimate	Depreciation	Impairment loss	Total
Land	56,077,866	-	(1,918,268)	-	-	-	-	-	54,159,598
Buildings	57,130,129	-	-	-	-	50,314	(2,759,583)	-	54,420,860
Plant and machinery	1,494,779	-	-	-	-	73,157	(405,189)	-	1,162,747
Furniture and fixtures	2,475,024	81,254	-	-	-	283,429	(731,963)	-	2,107,744
Motor vehicles	4,479,766	-	-	-	-	618,603	(1,627,896)	-	3,470,473
Office equipment	198,058	15,416	-	-	-	124,652	(127,930)	-	210,196
IT equipment	718,353	178,535	-	-	-	165,338	(340,962)	-	721,264
Leased assets	490,609	-	-	-	-	691,917	(379,966)	(20)	802,540
Infrastructure	61,358,566	-	-	75,172	-	2,659,788	(5,015,169)	45	59,078,402
Community	69,027,440	-	-	20,663,801	-	-	(2,426,082)	-	87,265,159
Work in progress	12,958,066	26,184,650	-	-	(20,738,973)	-	-	-	18,403,743
	266,408,656	**26,459,855**	**(1,918,268)**	**20,738,973**	**(20,738,973)**	**4,667,198**	**(13,814,740)**	**25**	**281,802,726**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals/Scrapping	Transfers received	Transfers	Reclassification	Depreciation	Total
Land	57,080,966	-	-	-	-	(1,003,100)	-	56,077,866
Buildings	57,681,176	-	-	1,863,005	-	(105,415)	(2,308,637)	57,130,129
Plant and machinery	1,340,661	432,600	(54,124)	-	-	-	(224,358)	1,494,779
Furniture and fixtures	2,190,040	981,488	(176,098)	-	-	-	(520,406)	2,475,024
Motor vehicles	4,561,603	894,700	-	-	-	-	(976,537)	4,479,766
Office equipment	351,864	-	(32,833)	-	-	-	(120,973)	198,058
IT equipment	691,564	388,591	(100,484)	-	-	-	(261,318)	718,353
Leased Assets	433,931	310,075	-	-	-	-	(253,397)	490,609
Infrastructure	36,846,429	-	-	28,268,504	-	-	(3,756,367)	61,358,566
Community	61,231,751	-	-	9,395,780	-	-	(1,600,091)	69,027,440
Work in progress	30,561,879	21,923,476	-	-	(39,527,289)	-	-	12,958,066
	252,971,864	**24,930,930**	**(363,539)**	**39,527,289**	**(39,527,289)**	**(1,108,515)**	**(10,022,084)**	**266,408,656**

Pledged as security

No property plant and equipment were pledged as security for collateral security.

Change in estimate

During the year, management assessed the useful life of assets and revised the remaining useful life of IT equipment, Furniture and office equipment. The effect of the change in estimate has been adjusted prospectively and the impact is disclosed in the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	19,991,033	(7,032,967)	12,958,066
Additions/capital expenditure	8,225,936	6,985,186	15,211,122
Transferred to completed items	-	(20,738,973)	(20,738,973)
	28,216,969	**(20,786,754)**	**7,430,215**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	21,762,816	8,799,062	-	30,561,878
Additions/capital expenditure	7,623,997	12,436,475	1,863,005	21,923,477
Transferred to completed items	(9,395,780)	(28,268,504)	(1,863,005)	(39,527,289)
	19,991,033	**(7,032,967)**	**-**	**12,958,066**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Plant and equipment	182,772	196,800
Furniture and fittings	80,000	-
Motor vehicle	1,793,805	1,277,345
Land and buildings	592,968	760,302
General Operating equipment	370,063	54,029
	3,019,608	**2,288,476**

In current year, no projects were stopped, halted or taking longer than anticipated to complete.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1,703,968	(1,421,226)	282,742	1,653,252	(1,314,773)	338,479

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Transfers received	Amortisation	Total
Computer software, other	338,479	4,053	46,663	(106,453)	282,742

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	496,955	88,125	(246,601)	338,479

5. Operating lease accrual

Current liabilities	-	(17,006)

Big 5 Hlabisa is renting photocopying machines from Nashua Zululand for 3 years as per the operating lease agreement. The lease liability arise from smoothing effect.

Operating lease contract has expired and the municipality is now renting the facility on a month to month contract.

6. Inventories

Land classified as held for sale	1,918,145	-

Inventory shown above relate to land that had been classified as held for sale in current year..

7. Receivables from exchange transactions

Creditors with debit balance	961,726	307,986
Consumer debtors - Refuse	9,898,508	9,823,896
Consumer debtors - Rental	54,384	58,281
Allowance for doubtful debts-Refuse	(5,436,382)	(5,704,691)
	5,478,236	**4,485,472**

Refuse	**2018**	**2017**
Current (0-30 days)	184,283	224,480
31-60 days	174,784	219,301
61-90 days	168,977	198,697
91 - 120 days	159,044	120,905
121 - 365 days	9,211,420	9,844,164
	9,898,508	**10,607,547**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from non-exchange transaction

Fines	16,800,035	15,995,035
Allowance for doubtful debts-fines	(16,681,761)	(15,823,860)
Staff debtors	500,388	530,705
Allowance for staff debtors	(204,249)	-
Creditors with debit balances	2,953,504	151,292
Consumer debtors - Rates	26,319,302	21,578,629
Allowance for doubtful debts-Rates	(11,864,301)	(7,803,447)
	17,822,918	**14,628,354**

Rates	**2018**	**2017**
Current (0-30 days)	455,440	981,011
31 - 60 days	411,407	880,922
61 - 90 days	320,193	883,448
91 - 120 Days	391,375	430,425
121- 365 days	24,740,887	17,719,630
	26,319,302	**20,895,436**

Summary of recievables from exchange and non-exchange transactions	**2018**	**2017**
Government		
Current (0-30 days)	36,621	11,671
31 - 60 days	(58,303)	47,231
61 - 90 days	18,112	213,313
91 - 120 Days	36,236	11,441
121- 365 days	4,938,711	4,521,343
	4,971,377	**4,804,999**

Industrial/ Commercial	**2018**	**2017**
Current (0-30 days)	806,534	751,569
31 - 60 days	(1,624)	619,156
61 - 90 days	368,015	474,273
91 - 120 Days	358,111	332,666
121- 365 days	13,229,780	9,181,471
	14,760,816	**11,359,135**

Residential	**2018**	**2017**
Current (0-30 days)	387,276	442,251
31 - 60 days	7	433,837
61 - 90 days	175,499	404,844
91 - 120 Days	177,193	209,885
121- 365 days	15,763,891	13,696,743
	16,503,866	**15,187,560**

Reconciliation of allowance for impairment of receivables from non-exchange transactions	**2018**	**2017**
Opening Balance	29,331,998	19,832,589
Contribution to allowance	4,696,599	9,499,409
	34,028,597	**29,331,998**

Fines	**2018**	**2017**
Current (0-30 days)	47,850	53,200

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from non-exchange transaction (continued)

31 - 60 days	172,250	47,250
61 - 90 days	61,450	18,150
91 - 120 Days	128,600	30,700
121- 365 days	16,395,965	15,845,735
	16,806,115	**15,995,035**

Staff Debtors	**2018**	**2017**
121- 365 days	500,388	530,705

Non-current assets	265,823	530,705
Current assets	17,557,095	14,097,649
	17,822,918	**14,628,354**

No consumer debtors were pledged as security for collateral liabilities.

An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end excluding amounts due from government departments. In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date on which the credit was initially granted up to the reporting date..

9. VAT receivable

VAT	-	7,226,955

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	(4,444)	(29)
Bank balances	3,506,859	1,902,801
Bank overdraft	(454,135)	-
	3,048,280	**1,902,772**

Current assets	3,502,415	1,902,772
Current liabilities	(454,135)	-
	3,048,280	**1,902,772**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
ABSA Bank-4053709558	3,255,171	56,026	-	3,263,124	56,026	-
FNB Bank-62205724174	-	(6)	-	-	(6)	-
FNB-62641677466	38,862	16,605	-	38,862	16,605	-
FNB-62641681251	41,352	4,694	-	41,352	4,694	-
ABSA-9104689480	-	1	-	-	1	-
Nedbank Bank-7881083085	-	1,661	-	-	1,661	-
Nedbank-03/7165016708/000001	91,629	86,149	-	91,213	86,149	-
Mercantile-4100167725	17,225	16,225	-	17,225	16,225	-
FNB Main Bank Account-62632389450	(454,135)	1,453,755	-	(454,135)	1,453,755	-
ABSA Bank-9109586760	-	58,065	-	-	58,065	-
FNB Main Bank Account-62022340385	3,297	88,291	-	3,297	88,291	-
FNB-62641679123	30,606	113,856	-	30,606	113,856	-
FNB Call Account	21,180	7,444	-	21,180	7,444	-
Petty Cash	-	-	-	(4,444)	-	-
Total	**3,045,187**	**1,902,766**	**-**	**3,048,280**	**1,902,766**	**-**

11. Finance lease obligation

	2018	2017
Present value of minimum lease payments due		
- within one year	103,225	108,074
- in second to fifth year inclusive	98,571	202,001
	201,796	**310,075**
Non-current liabilities	98,571	202,001
Current liabilities	103,225	108,074
	201,796	**310,075**

The average lease term is 5 years and the average effective borrowing rate is 12% pa. The nature of the finance lease liabilities are agreements in place with the supplier Vodacom 4U for the supply of Laptop Computer.
Finance lease liabilities are secured with lease assets that are located at the municipality.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017
Unspent conditional grants and receipts		
DOH - Disaster Management Grant	1,267,785	1,267,785
Integrated National Electrification Programme	396,506	19,490
LGSETA Grants	-	25,477
Work Study	27,595	700,000
Cogta By laws	3,000	26,000
Migration of Records	-	200,000
Municipal System Improvement Grant	-	135,720
	1,694,886	**2,374,472**

There has been no movement in Disaster Management grant compared to prior year. The Municipality contacted the funders and it was agreed to write the full amount in the following financial year. .

13. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Benefits payments	Acturial gain	Finance costs	Current costs	Total
Environmental rehabilitation	7,897,543	483,918	-	-	-	-	8,381,461
Provision for long service award	1,557,789	-	(78,911)	149,842	134,980	257,700	2,021,400
	9,455,332	**483,918**	**(78,911)**	**149,842**	**134,980**	**257,700**	**10,402,861**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Benefits payments	Actuarial gains/(loses)	Finance costs	Current service costs	Total
Environmental rehabilitation	7,384,828	430,619	-	-	82,096	-	7,897,543
Provision for long service award	2,099,886	-	(456,453)	(467,356)	135,701	246,011	1,557,789
	9,484,714	**430,619**	**(456,453)**	**(467,356)**	**217,797**	**246,011**	**9,455,332**

Provision for long Service Award

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of defined plan assets and the present value of the defined benefit obligation were carried out as at 30 June 2018 by Onepangaea , a Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relate to the legal obligation to rehabilitate the landfill sites used for waste disposal in accordance with the National Environmental Management Act No 107 of 1998 and Environmental Conservation Act No 73 of 1989. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

Acturial assumptions used were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Provisions (continued)

	2018	**2017**
Discount rate per annum	9.50 %	8.89 %
General Inflation	6.02 %	5.68 %
Salary inflation	7.02 %	6.68 %
Real inflation	2.32 %	2.07 %

Examples of motality rate used:	
Average retirement age	63 years
Motality during employement	SA 85-90

14. Payables from exchange transactions

	2018	2017
Trade payables	13,846,614	22,115,765
Retention	14,319,107	5,210,224
PAYE Suspense	(241,564)	1,859,788
Unallocated deposits	267,618	286,746
Leave provision	4,904,835	4,603,987
Unemployment Insurance Fund	56,907	178,295
Payable-Unions	748	57,070
Other payables - Employee deduction-FICS	97,557	97,588
Other Creditors - Hall hire	7,838	7,838
Other payables - salary control	(6,749)	15,460
Site deposits	2,502,925	2,502,925
Other payables taken on	1,247,070	1,247,070
Other payables - Pension	1,698,835	2,335,437
Other payables - Skills Control	46,680	137,860
Other payables - Medical Aid	361	416,115
Provision for annual bonus	1,521,120	1,569,263
Deduction Pension	26,682	26,682
	40,296,584	**42,668,113**

Provision for leave relates to accrual for unused leave at year-end. The leave is expected to be taken over the next financial year and is calculated based on employee total cost to company.

The annual bonus is payable to normal municipality staff members in December each year. The annual bonus is calculated monthly as per the formula at the ordinary salary rate earned during each relevant month and accumulated and paid to the employee.
The Municipality pays every employee, for each month that the employee was paid or entitled to be paid in respect of each completed 12 months of service with such municipality. In the event that the employee joined the municipality during the year, a prorated share of bonus for the period of the year that he/she worked is paid.

Provision for leave pay and annual bonuses were incorrectly classified as payables from non-exchange transactions in prior years. Annual bonus and leave pay relate to amount that will be paid to employees for services rendered during each specific period hence it becomes an exchange transaction. Further other employee related accruals such as medical aid, UIF and PAYE should be classified as accruals from exchange transactions as well due to the fact that they arise as a result of services rendered by employees.

Prior period amounts have to be restated to correct this error as described above.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Revenue

Sale of goods	869,266	127,599
Rendering of services	106,570	23,137
Service charges	2,019,611	1,470,057
Rental of facilities and equipment	342,355	192,914
Interest income (trading)	11,963	-
Licences and permits	1,878,643	1,554,261
Other income-Building plan	54,642	14,986
Interest received - investment	1,155,682	732,806
Property rates	21,495,990	8,288,634
Government grants & subsidies	123,433,219	108,449,265
Fines, Penalties and Forfeits	811,520	533,650
Other transfer revenue 1	51,771	475,866
	152,231,232	**121,863,175**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	869,266	127,599
Service charges	2,019,611	1,470,057
Rendering of services	106,570	23,137
Rental of facilities and equipment	342,355	192,914
Interest received (trading)	11,963	-
Licences and permits	1,878,643	1,554,261
Other income - Building plan	54,642	14,986
Interest received - investment	1,155,682	732,806
	6,438,732	**4,115,760**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	21,495,990	8,288,634
Transfer revenue		
Government grants & subsidies	123,433,219	108,449,265
Fines, Penalties and Forfeits	811,520	533,650
Other transfer revenue 1	51,771	475,866
	145,792,500	**117,747,415**

16. Service charges

Solid waste	2,019,611	1,470,057

17. Lease rentals on operating lease

Equipment		
Contractual amounts	2,873,091	827,827

18. Investment revenue

Interest revenue		
Interest from investments	1,019,761	561,198
Bank	135,921	171,608
	1,155,682	**732,806**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Property rates

Rates

Residential	3,022,074	1,141,814
State	4,540,955	2,057,445
Public property and protected areas	13,932,961	5,089,375
	21,495,990	**8,288,634**

Valuations

	2018	**2017**
AGR - Agricultural	(1,922,990,332)	1,922,990,332
PSI - Public Service Infrastructure	509,000	509,000
GOV - State owned	181,124,350	181,124,350
BUS - Bus, Comm & Industrial	152,811,167	152,811,167
SPC - Special Properties	116,603,380	116,603,380
RES - Residential	213,558,280	213,558,280
POW -Places of Worship	9,804,600	9,804,600
MUN - Municipal Owned	31,648,701	31,648,701
RCL - Rural Communal land	99,894,664	99,894,664
	(1,117,036,190)	**2,728,944,474**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on **1 July 2014.** Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

20. Grants and subsidies paid

Social Relief	42,000	-
Municipal infrastructure Grant	-	1,287,814
	42,000	**1,287,814**
Other subsidies		
National Achive Commission	(45,707)	-
Youth Carrier Exhibition	92,673	-
Youth Events	23,544	-
Youth In Action	203,270	-
IDP Projects	268,045	3,600
LED	1,800,228	-
Municipal Dermacation Grant	-	1,242,813
Extended Public Works-Incentives	248,462	3,171,826
Group co ID 10	(1,817,641)	-
Disaster management forum	3,018	-
Development Planning and Shared Services	607,700	-
Social relief	954,998	2,337,705
Art Centres Subsidies	250,651	-
	2,589,241	**6,755,944**
	2,631,241	**8,043,758**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Government grants and subsidies

Operating grants		
Equitable share	84,732,000	66,132,598
Expanded Public Works Programme Integrated Grant	2,027,722	3,386,196
Local Government Financial Management Grant	3,800,000	3,651,430
Municipal Demarcation Transition Grant	8,280,000	9,252,287
Development Planning and Shared Services	672,405	-
Migration of records	200,000	-
Construction, Education and Training SETA	60,092	-
Municipal By-Law grant	23,000	174,000
Community Library Services Grant	1,974,000	2,113,785
	101,769,219	**84,710,296**
Capital grants		
Municipal Infrastructure Grant	21,664,000	23,738,969
	123,433,219	**108,449,265**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Hlabisa Sewage system grant

Balance unspent at beginning of year	-	1,798,319
Conditions met - transferred to revenue	-	(1,798,319)
	-	**-**

DOH - Disaster management grant

Balance unspent at beginning of year	1,267,785	1,267,785

Conditions still to be met - remain liabilities (see note 12).

Intergrated national Electrification Program grant

Balance unspent at beginning of year	19,490	-
Current-year receipts	14,000,000	20,000,000
Unspent balance withheld	(19,000)	-
Reclassification from revenue	(13,603,984)	(19,980,510)
	396,506	**19,490**

Conditions still to be met - remain liabilities (see note 12).

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	7,948,862
Current-year receipts	21,664,063	23,800,000
Conditions met - transferred to revenue	(21,664,063)	(23,738,968)
Unspent balance withheld	-	(8,009,894)
	-	**-**

LG SETA

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Government grants and subsidies (continued)

Balance unspent at beginning of year	25,475	25,475
Current-year receipts	34,617	-
Conditions met - transferred to revenue	(60,092)	-
	-	**25,475**

Conditions still to be met - remain liabilities (see note 12).

Financial Management Grant

Balance unspent at beginning of year	-	45,929
Current-year receipts	3,800,000	3,650,000
Conditions met - transferred to revenue	(3,800,000)	(3,651,430)
Unspent balance withheld	-	(44,499)
	-	**-**

Municipal Demarcation Transition Grant

Balance unspent at beginning of year	-	3,424,287
Current-year receipts	8,280,000	5,828,000
Conditions met - transferred to revenue	(8,280,000)	(9,252,287)
	-	**-**

Work / Study Grant

Balance unspent at beginning of year	700,000	700,000
Current-year receipts	-	9,252,287
Conditions met - transferred to revenue	(672,405)	(9,252,287)
	27,595	**700,000**

Conditions still to be met - remain liabilities (see note 12).

Municipal By Law Grants

Balance unspent at beginning of year	26,000	-
Current-year receipts	-	200,000
Conditions met - transferred to revenue	(23,000)	(174,000)
	3,000	**26,000**

Conditions still to be met - remain liabilities (see note 12).

Migration of records grant

Balance unspent at beginning of year	200,000	200,000
Conditions met - transferred to revenue	(200,000)	-
	-	**200,000**

Conditions still to be met - remain liabilities (see note 12).

Extended Public works program Grant

Balance unspent at beginning of year	135,720	135,720
Current-year receipts	1,892,000	3,386,196
Conditions met - transferred to revenue	(2,027,720)	(3,386,196)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Government grants and subsidies (continued)

	-	**135,720**

Conditions still to be met - remain liabilities (see note 12).

Corridor Development Grant

Balance unspent at beginning of year	-	652,752
Conditions met - transferred to revenue	-	(652,752)
	-	**-**

Community Library Service Grant

Current-year receipts	1,974,001	2,113,785
Conditions met - transferred to revenue	(1,974,001)	(2,113,785)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Employee related costs

Basic	47,928,871	38,997,103
Bonus	3,837,359	2,989,843
Medical aid - company contributions	3,138,644	2,223,196
UIF	361,893	311,348
Other payroll levies	20,444	16,530
Leave pay provision charge	691,905	1,671,303
Overtime payments	415,416	209,965
Car allowance	4,818,250	3,756,087
Housing benefits and allowances	417,216	407,581
Pension fund contribution	5,938,149	5,175,669
Contribution to long service award	-	(677,798)
Cellphone allowance	86,817	100,060
Other allowances	232,929	11,000
	67,887,893	**55,191,887**

Remuneration of Municipal Manager

Annual Remuneration	621,454	559,571
Car Allowance	263,302	227,653
Contributions to UIF, Medical and Pension Funds	11,850	112,670
Cellphone allowance	25,613	22,765
Housing allowance	138,942	122,631
Travel claim	76,629	-
	1,137,790	**1,045,290**

Remuneration of Chief Finance Officer

Annual Remuneration	38,774	461,712
Car Allowance	16,064	87,061
Acting allowance	79,323	-
Contributions to UIF, Medical and Pension Funds	759	735,788
Housing Allowance	7,192	-
Cellphone allowance	2,226	3,446
Annual Bonus	-	38,301
	144,338	**1,326,308**

There has not been a permanent appointment of the Chief Finance Officer for eleven months of the financial year. The Chief Financial Officer was appointed in June 2018.

Remuneration of directors Corporate service

Annual Remuneration	573,209	417,672
Car Allowance	69,541	182,122
Contributions to UIF, Medical and Pension Funds	211,403	30,081
Cellphone allowance	14,974	22,765
Housing Allowance	93,590	73,560
Travel claim	78,655	-
	1,041,372	**726,200**

Remuneration of Director Community Services

Annual Remuneration	461,077	477,434
Car Allowance	194,416	12,731
Contributions to UIF, Medical and Pension Funds	9,157	154,458

22. Employee related costs (continued)

	2018	2017
Travel claim	63,858	-
Housing allowance	84,432	73,207
Cellphone allowance	26,274	79,572
	839,214	**797,402**

Remuneration of Director Planning and Infrastructure

	2018	2017
Annual Remuneration	158,983	417,672
Car Allowance	45,026	170,740
Contributions to UIF, Medical and Pension Funds	2,979	1,679
Housing Allowance	22,216	84,943
Cellphone allowance	6,346	22,765
	235,550	**697,799**

The post became vacant on 01 November 2017, the incumbent resigned during the financial year and the post was never filled up to the year end.

23. Remuneration of councillors

	2018	2017
Mayor	797,411	628,488
Deputy Mayor	376,641	277,845
Mayoral Committee Members	1,067,030	265,981
Speaker	376,971	284,633
Councillors	5,026,568	4,309,173
MPAC	346,452	-
	7,991,073	**5,766,120**

In-kind benefits

The Deputy Mayor, and Mayoral Committee Members are part-time employees. The Mayor is a full-time employee. The Mayor, Deputy Mayor and Speaker have offices and secretarial support at the cost of the Council.

The Mayor, has the use of separate Council owned vehicle for official duties.

The Mayor has six full-time bodyguards. The Deputy Mayor has one full time body guard, the speaker has one full time body guard.. Cllr SZ Mthembu, Cllr FZ Nkwanyana, Cllr GR Mchunu are watched from the municipality security company.

24. Depreciation and amortisation

	2018	2017
Property, plant and equipment	9,207,615	10,022,084
Intangible assets	106,453	246,601
	9,314,068	**10,268,685**

25. Finance costs

	2018	2017
Other interest expenses	780,546	365,698

Other interest expenses relate to finance costs charged on provision for long service awards and landfil site.

26. Provision for debt impairment

	2018	2017
Provision for bad debts	4,650,446	9,499,409

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
27. Contracted services		
Outsourced Services		
Business and Advisory	143,912	-
Catering Services	206,254	500
Cleaning Services	71,676	1,269,772
Clearing and Grass Cutting Services	127,615	-
Hygiene Services	9,907	-
Internal Auditors	2,898,630	(56,932)
Professional Staff	195,740	-
Consultants and Professional Services		
Business and Advisory	1,626,802	-
Infrastructure and Planning	257,400	-
Legal Cost	410,805	193,164
Contractors		
Artists and Performers	259,150	-
Catering Services	156,108	-
Electrical	66,642	-
Event Promoters	1,205,351	1,213,818
Gardening Services	7,814	-
Interior Decorator	168,948	-
Maintenance of Buildings and Facilities	988,105	1,280,136
Maintenance of Equipment	2,057,432	-
Maintenance of Unspecified Assets	1,535	1,179,201
Safeguard and Security	6,490,086	5,661,005
Stage and Sound Crew	172,436	889,245
Removal of Hazardous Waste	398,668	-
	17,921,016	**11,629,909**

Big 5 Hlabisa have implemented mSCOA for the first time in current year. Prior year figures have been restated accordingly for comparability purposes

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. General expenses

Advertising	1,793,107	1,577,542
Auditors remuneration	1,622,632	3,690,782
Bank charges	488,155	175,237
Prepaid electricity	879,324	1,018,267
Insurance	686,960	833,128
Community development and training	194,820	466,568
IT expenses	280,753	-
Skills development Levy	724,338	455,329
Driver's Licenses and Permits	37,514	-
Fuel and oil	1,573,282	1,219,733
Printing and stationery	501,257	869,511
Protective clothing	209,974	282,836
Security (Guarding of municipal property)	36,000	-
Bursary non-employees	1,103,434	-
Subscriptions and membership fees	782,927	2,206,726
Telephone and fax	2,352,252	2,915,090
Arts & Culture events	253,100	541,036
Travel and Accommodation	2,248,444	1,583,164
Disaster Management Program-Executive council	-	706,103
Write-offs-Suspense accounts	5,765,567	1,946
Contribution Landfil Site expense	483,918	430,619
Remuneration of ward committees	1,068,336	482,888
Bursaries	35,515	468,420
Staff training expense	511,873	2,181,241
Learnerships and Internships	286,690	-
	23,920,172	**22,106,166**

Big 5 Hlabisa have implemented mSCOA for the first time in current year. Prior year figures have been restated accordingly for comparability purposes.

29. Auditors' remuneration

Audit Fees	1,622,632	3,690,782

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Cash generated from operations

	2018	2017
Surplus (deficit)	15,908,172	(2,168,509)
Adjustments for:		
Depreciation and amortisation	9,314,068	10,254,915
Gain on sale of Property Plant and equipment	(1,652,560)	345,995
Provision for Debt impairment	4,650,446	9,499,409
Movements in operating lease assets and accruals	(17,006)	-
Movements in provisions	947,529	430,619
Service cost and actuarial gain on Long Service Award	149,842	(677,798)
Prior Year grant deduction netted off against equitable share	(79,000)	(9,035,358)
Gain on donated assets	(51,775)	(487,314)
Other non cash Items	(1,012,312)	1,864,151
Interest Paid - Landfill Site & Long Service Award	81,757	217,797
Changes in working capital:		
Inventories	(1,918,145)	-
Receivables from exchange transactions	(992,764)	(3,868,511)
Other receivables from non-exchange transactions	(3,461,446)	(9,528,959)
Payables from exchange transactions	(2,371,529)	28,729,315
VAT	7,803,250	(2,315,131)
Taxes and transfers payable (non exchange)	1,103,163	1,180,283
Unspent conditional grants and receipts	(679,586)	(4,924,931)
Consumer deposits	(4,409)	-
Operating lease liability	-	17,006
Finance lease liability	-	108,074
	27,717,695	**19,641,053**

31. Commitments

Authorised capital expenditure

	2018	2017
Approved and Contracted for		
• Property Plant and Equipment	9,924,269	42,447,884
• Open Orders	5,957,732	782,556
• Out sourced IT Services	2,064,000	1,519,861
	17,946,001	**44,750,301**
Approved but not yet contracted for		
• Property, plant and equipment and electrification projects	22,000,000	8,450,000
Total operational commitments		
Already contracted for and provided for	17,946,001	44,750,301
Approved but not yet contracted for	22,000,000	8,450,000
	39,946,001	**53,200,301**

1. Commitments are calculated using approved value (including vat) of the project which includes cost for consultants and contracted supplier/construction company/vendor.

2. Commitments for capital projects/MIG are removed from the commitment schedule when the completion certificate is prepared and the municipality is satisfied with the work on the project

3. Commitments balance at the end of the financial period excludes the retention payments/value, as the retention is a creditor and forms part of the accounting records.

32. Contingencies

SAMWU OBO MP PHAKATHI / LABOUR COURT MATTER
When the two municipality merged, there was a placement policy affecting the staff members. Mr Phakati wanted to be placed in a position of a deputy CFO, however he was placed as manager income. This lead to disagreements and the case was taken to court for judication. Mr Phakathi has instituted proceedings for the setting aside of an arbitration award, which matter is being dealt with in the labour court. Should the matter proceed to finalization, we suggest a contingency of R125 000.00 in respect of legal costs.

REPUBLIC WATCH (Pity) LTD : BIG 5 HLABISA MUNICIPALITY
When two municipality merged, The Republic Watch Pity Ltd was appoint by BIG 5 before merger using section 36 of MFMA but the appointment process was not properly followed. The municipality contested this since there was no valid contract or any supporting documentation. Municipality stopped paying the supplier therefore they took the matter to court. The matter will be set down for argument in the High Court Pietermaritzburg and we estimate your exposure to be in the region of R1.8 million.

BIG FIVE HLABISA MUNICIPALITY// TENDELE COAL MINE Pity LTD APPLICATION BY GLOBAL TRUST & OTHERS
The mine land was within the jurisdiction of BIG 5 Hlabisa, however this have changed after merger and the mine is now within the jurisdiction of Mtubatuba municipality hence there is dispute between the municipality and the mining company. The matter has been set down for adjudication on the 24th day of August 2018 in the High Court Pietermaritzburg. You have recently provided us with an application for an interested party to join the proceedings. It is estimated that contingent liability / exposure, will be confined to legal costs in the approximate sum of R115,000.00 , obviously subject to the course that the litigation follows.

WAMKELWA TRADING ENTERPRISE CC

This supplier was appointed to do the back up system and maintenance of airconditions. The documentation was not signed by the supplier within stipulated time. Hence the supplier claimed that the municipality owes them. This have been taken to court. It is estimated that the contingent liability to be in the region of R600 000.00 and the matter has yet to be set down for hearing in the High Court, Pietermaritzburg.

LANGA NEWSPAPER : DEFAMATION MR NGUBANE
Mr Ngubane was employed by Big 5 Hlabisa, he went to the newspaper and submitted a story relating to corruption. The municipality challenged this in court as defamation of character. The High Court summons was served on the first defendant, however the service is still outstanding in respect of Mr Ngubane We estimate your contingent liability to be in the region of R150,000.00 which will be in respect of the legal costs incurred . The risk to yourselves, would be in respect of a cost order being awarded against you.

VEZWE INVESTMENTS
This suppler was engage by Big 5 Hlabisa as debt collectors and they did not render the service, however they are claiming that municipality owes they R 265 000. The municipality is contesting that in courts. The exposure / contingent liability is estimated to be in the sum of R265 000.00. Should you require further information, kindly forward your request to the writer.

33. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality is in an unfavourable position because current liability exceed current assets, however as a mitigating factor the, municipality receives equitable share funds from government at the beginning of each year.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

34. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 255,723,080 and that the municipality's total assets exceed its liability by R 255,723,080.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concerns depended on a numer of factors. The most significant of these is that the government continue funding for the ongoing operations for the municipality to restore the solvency of the municipality

35. Events after the reporting date

No subsequent events were identified during the year.

36. Unauthorised expenditure

Opening balance	59,988,836	48,497,156
Over expenditure - Appropriation Statement	10,069,995	8,612,289
Conditional grants not cash backed	-	2,879,391
	70,058,831	**59,988,836**

Unauthorised expenditure has been tabled to council and it was referred to MPAC for further investigation.

37. Fruitless and wasteful expenditure

Opening Balance	2,111,974	1,754,984
Current year	772,877	356,990
	2,884,851	**2,111,974**

Interest and penalties on late payments(Telkom & Eskom). Fruitless and wasteful expenditure has been tabled to council and it was referred to MPEC for further investigation

38. Irregular expenditure

Opening balance	217,571,690	147,322,273
Add: Irregular Expenditure - current year	34,820,641	70,249,417
	252,392,331	**217,571,690**

The irregular expenditure arises due to failure to follow Supply Chain Management Policies. Irregular expenditure has been tabled to council and it was referred to MPAC for further investigation

Figures in Rand	2018	2017

39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Additional costs were incurred during the financial year under review and the process followed in incurring those costs deviated from the provisions of paragraph 12(1) (d)(i) as stated above. The reasons for these deviations were documented and normal supply chain management regulations.

Deviation are disclosed as follows:	**2018**	**2017**
Current year	2,484,459	-
Approved by Council	(2,484,459)	-
	-	**-**

40. Budget differences

Material differences between budget and actual amounts

Licences and permits
Traffic department was burnt down during the year the the municipality revised the budget for license an penalties hence a significant variance is noted. Further, Mtubatuba traffic station was renovated and all their clients were transfered to Big 5 Hlabisa local Municipality during the renovation process hence an increase in this revenue stream.

Interest received -investment
This is due to huge favourable bank balance in the investment accounts

Grants and Subsidies
The Municipality over budgeted and received less than what was anticipated.

Employee related costs
Salaries increased drastically due to new vacant post that were filled in current year as well as high allowances and travel claims.

Depreciation and amortisation.
This was due to under budgeting

Contracted service
According to mSCOA definations, most transactions have been classified as as contracted service. The Municipality did not factor this when preparing the budget hence significant variance obtained.

Other materials:
Other materials are classified as contracted service as per mScoa classifications hence there is no actual amount aligned to this section.

41. Other payables from non-exchange transaction

Debtors with credit balance	2,953,504	1,850,341

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

42. Prior period errors

Petty Cash: An amount of R23 894.88 was posted incorrectly last financial year to the petty cash account instead of licences and permit expense account hence the balance for petty cash account was overstated.A correction was made to correct the petty cash account against the correct expense account hence prior year amount has been restated.

VAT receivable: The VAT amount disclosed in prior year was overstated, management assessed the recoverability of the receivable against the VAT statement of account and a portion of VAT receivable had to be written off against retained surplus.

Land and Buildings: In prior years, land and buildings rented out was classified as property plant and equipment. This was identified in current year and prior period amounts have been restated accordingly to reflect this change.

INEP: In 2016/2017 the municipality disclosed Intergrated Natioanl Electrification Program under trade and other payables and in the current year it is disclosed under Unspent grants.

Unspent Conditional Grant: Revenue on Corridor Development and Hlabisa Sewerage System Project grants was not realised in prior years hence unspent conditional grants disclosed in prior year was overstated. A total of R 2 431 581 was adjusted agianst retained surplus

Below is the list of all material prior period errors identified in current year:

Current assets	**As previously report**	**Prior period error**	**Prior period**	**Total**
Cash and cash equivalents	1,926,661	-	(23,889)	1,902,772
VAT	11,810,497	-	(4,583,542)	7,226,955
Investment property				
Invstment property	293,000	-	1,217,304	1,510,304
Property Plant and Equipment				
Building	75,895,390	-	(214,204)	75,681,186
Land	57,080,966	-	(1,003,100)	56,077,866
Accumulated depreciation Buildings	(18,659,845)	-	108,789	(18,551,056)
Expenditure				
License costs	-	-	23,889	23,889
Depreciation and amortisation	10,268,685	-	(13,770)	10,254,915
Equity and Liability				
Ruturned surplus	241,909,100	2,431,581	(4,583,542)	239,757,139
Unspent conditional grants	4,806,052	(2,431,581)	-	2,374,471

43. Prior-year reclassifications

BIG 5 Hlabisa implemented mScoa for the first time with effect from 1 July 2017. Certain transactions have been reclassified to comply with this mScoa chat of accounts and some prior year figures were restated accordingly for comparability purpose.

Below is the list of all material reclassifications:

Statement of financial position

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

43. Prior-year reclassifications (continued)

2017

	Note	As previously reported	Re-classification	Restated
Current Liabilities				
Payables from exchange transactions		32,023,421	10,644,692	42,668,113
Payables from non-exchange transactions		12,400,739	(10,550,398)	1,850,341
Current portion of Proviosion-Long service award		78,911	(78,911)	-
Current portion of Provision-Landfil site		245,614	(245,614)	-
Non-Current Liabilities				
Non-current provision-Long service award		1,478,878	78,911	1,557,789
Non current Provision - Landfill site		7,651,929	245,614	7,897,543
Current Assets				
Receivables from exchnage transactions		4,902,856	(417,384)	4,485,472
Receivables from non exchange transaction		14,101,855	417,384	14,519,239

Payables from exchange transaction have increased due to reclassification of provision for leave and bonus that was classified as non exchange in prior years. Further there was a grant of R19 491 that was incorrectly classified as payables, this have been corrected in current year as shown above.

Current portion of provision was disclosed under current liabilities in prior years. The nature of the provision reflect that no portion will be paid in the next 12 month therefore no portion should be disclosed as current liability. The correction was done as shown above.

Staff debtors were incorrectly classified as receivables from exchange transactions in prior years, however they should have been classified as receivables from non exchange transaction. a reclassification was performed and prior year figures has been restated accordingly.

Statement of finanical performance

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

43. Prior-year reclassifications (continued)

2017

	Note	As previously reported	Re-classification	Restated
Revenue				
Revenue from exchange transactions		1,999,896	2,115,864	4,115,760
Revenue from non-exchange transactions		119,863,275	(2,115,864)	117,747,411
Expenditure				
Employee related costs		55,814,378	(622,491)	55,191,887
Lease rentals on operating lease		-	827,827	827,827
Contracted services		425,265	11,204,644	11,629,909
Transfers and subsidies		-	8,043,758	8,043,758
General expenses		38,984,077	(17,080,637)	21,903,440
Repairs and maintanance		2,288,477	(2,288,477)	-
Provision for site rehabilitation		430,619	(430,619)	-
Loss on disposal of assets		-	345,995	345,995

Licence and permit were classified as revenue from non exchange transaction, as per mSCOA this has to be classified as revenue from exchange transaction hence reclassification was made. Loss on disposal of assets was disclosed as revenue from non exchange transaction and this has been corrected in current year.

Skills Development levy is classified as general expenses according to mSCOA hence reclassification was done to move it from employee related costs to operational costs.

Due to implementation of mSCOA, a lot of transactions have been reclassified to contracted services as reflected above. As per the definition provided by mSCOA, all transaction that are contracted or outsourced from an external party are classified as contracted services. This result to reclassification of prior year figures for comparability purposes.

General expenses have been reclassified to contracted services as per mScoa chart definitions. Prior period have been restated accordingly for comparative purposes.

In prior years, repairs and maintenance were disclosed as a separate line item in statement of financial performance. As per mSCOA definitions, repairs and maintenance are contracted services and prior year figures has been reclassified accordingly.

44. Additional disclosure in terms of Municipal Finance Management Act

Pension contributions

	2018	2017
Opening balance	2,335,436	-
Current year subscription / fee	10,199,921	8,445,356
Amount paid - current year	(10,835,547)	(6,109,920)
	1,699,810	**2,335,436**

Audit fees

	2018	2017
Opening balance	48,178	-
Current year subscription / fee	1,606,991	3,414,513
Amount paid - current year	(1,238,654)	(3,366,335)
	416,515	**48,178**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Medical contributions

	2018	2017
Opening balance	416,115	-
Current year subscription / fee	5,381,576	3,985,165
Amount paid - current year	(5,797,075)	(3,569,050)
	616	**416,115**

VAT

	2018	2017
VAT receivable	-	7,226,955
VAT payable	576,295	-
	576,295	**7,226,955**

VAT output payables and VAT input receivables are shown in note 9.

All VAT returns have been submitted by the due date throughout the year.